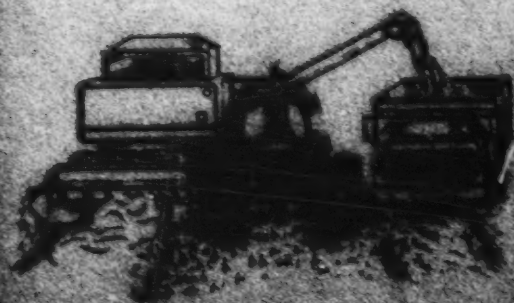




Saskatchewan
Agriculture

Economics
Branch

Farm
Management



Insurance Management for Farmers

Preface

A sound insurance program is one part of managing risk. Since farm businesses have very large capital investments with large cash flows, they face a high level of risk from many sources. This makes insurance an important consideration in many farm management decisions.

This bulletin provides general information about the risks and types of insurance that farmers should consider. Legal aspects, what to look for in an insurance policy, how to determine how much insurance to carry and a glossary of insurance terms are included. A qualified insurance agent should be contacted for further details on any aspect of insurance. For the legal aspects of insurance a lawyer should be contacted.

The assistance of many resource people and reviewers in preparing this bulletin are gratefully acknowledged.

For further information or additional copies of this bulletin, contact your Agricultural Representative, Regional Farm Management Specialist or the Economics Branch, Room 329, Walter Scott Building, Regina, Saskatchewan.

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Introduction

Risk and uncertainty play an important role in today's farm management decisions. Farm managers must deal with natural risks inherent to farming, as well as financial risk and uncertainty caused by fluctuating product prices and spiralling input costs. Risk can be defined as "the chance of a loss" and uncertainty as the "inability to predict" when the actual loss will occur. For example, we say there is a risk of having hail one year in every ten, or a 10% chance of hail. However, we are uncertain about which year in the ten years it will hail.

Risk can be controlled in three ways:

- 1) By assuming it. The individual accepts the chance of a loss and the consequences should that loss occur.
- 2) By reducing or preventing it. The individual adjusts his situation to reduce the impact of a particular occurrence. For example, diversifying a farming operation reduces the impact of low prices in any one enterprise.
- 3) By transferring it. The individual transfers the risk of a financial loss from himself to a group of individuals. This is the basis of formal insurance.

An insurance policy is the contract between the individual (the "insured") and the group (the "insurer"). It requires that the insured pays the insurer a premium which is a contribution to the group fund. In return, the insurer is required to cover specified losses to the extent indicated in the policy. The policy is a legal contract setting out the rights and responsibilities of each party.

Insurance does not prevent a loss but it does compensate the insured when a loss occurs. If an occurrence (a "peril") is insured against, it may or may not happen, or it may only partially happen. Consequently, the insured may never receive a payout from insurance.

Risk can be divided into the following types:

- 1) Property risk - the chance of a loss of buildings, vehicles, machinery or other material items.
- 2) Liability risk - the chance that a third party suffers a loss for which the insured is responsible.
- 3) Personal risk - the chance of a disablement or the loss of health or life.
- 4) Speculative risk - the chance of incurring either a profit or a loss on a business venture.

The first 3 types of risk can be identified as "pure risk". Pure risk is a situation where there is a chance of a loss, but not a chance of a profit. For example, pure risk is the chance that a house will be destroyed by fire. No profit can come from such an event but a loss can occur. Speculative risk describes a situation where either a profit or a loss may occur. Crop production is an example of a speculative risk.

Another is speculation on the futures market. A profit or loss may result in either case.

This bulletin discusses the various insurance alternatives available to farm managers for the control of risk in each of the above four areas.

Analyzing Your Insurance Needs

Periodically review your insurance policies to maintain adequate coverage levels. Strive for sound coverage, leaving no large gaps, yet not wasting premium dollars on insuring trivial items which could easily be replaced through cash reserves. Insure for those risks that could be catastrophic to the business. This is the basis of risk management.

Risk Management

Risk management involves identifying potential risks and then deciding how vulnerable the business is to each one of these risks. Ask yourself questions such as the following:

- a) Would the loss of a particular building create a severe setback or bear no consequences whatsoever?
- b) Should you become disabled for six months, is there a sufficient reserve to hire replacement help and provide for your family?
- c) Would a third party liability claim financially ruin your business?

Having identified the risks, the farm manager must then decide on how to control them. A risk can be controlled by assuming it, reducing or preventing it, or by transferring it. Most managers will use all three methods to some extent. They assess their situation, determine the most important risks and choose a suitable mix of risk controlling methods.

In some cases, risks can be reduced or eliminated. The risk of vandalism to machinery and theft of grain can be substantially reduced by storing these items at home. Constructing granaries from steel and concrete will reduce the risk of their loss by fire or lightning.

In other cases, risks can be assumed. For instance, not including glass breakage on your automobile "package policy" means assuming the risk of replacing a \$200 windshield. Likewise, not purchasing hail insurance for a particular field of grain means you will assume the risk of a loss by hail in that field. The level of risk that can be comfortably assumed by an individual depends, of course, on their savings, inventory carry over and debt-load. In summary, don't insure for losses that can be easily absorbed by the business, but insure adequately against potentially serious losses.

Choosing a Policy

Once you have determined which risks should be insured, start examining the various policies available. As a general rule, it is better to pick a reliable insurance agent, rather than to pick the company. Make inquiries and rely on the recommendations of people who have dealt with a good agent. If an independent agent is used, your insurance needs can be placed with the most suitable company. Take the time to thoroughly discuss your needs with the agent. A good agent will explain the alternatives available and perhaps visit your farm to advise on specific coverages.

When selecting a policy, ask the agent to obtain several quotations. Be sure that the quotes are all for the same type of protection. It is important to tell the agent everything that would affect an insurance company's decision in issuing a policy and quoting a premium. If a relevant point is not disclosed, and the situation comes to light following a loss, the insurance company can argue that the risks were not what they have been stated to be - and is therefore not compelled to pay. This applies to all types of insurance, whether it be fire, auto, life, or disability.

The policy should be tailored to provide the best possible coverage while conserving premium dollars. For property insurance, consideration should be given to dollar amounts of coverage, replacement cost versus actual cash value coverage, blanket versus scheduled coverage, co-insurance implications, and basic fire versus all-risk protection. Premiums can be reduced by using higher deductibles, installation of smoke detectors and fire extinguishers or improving older electrical systems.

The insurance business is highly competitive in the area of farm property and automobiles. Most companies offer comprehensive policies which provide overall farm coverage including dwelling and contents, outbuildings, machinery, livestock, produce and general liability. These policies are commonly known as Agro-Pak, Agro-Guard and Farm Guard. They meet most farm needs in one policy with one renewal date. These companies also handle automobile insurance, or package policies, which can usually be purchased through the same agent.

In the case of life and disability insurance, there is greater variation in the types of coverage and premium rates. It is just as important to choose a reliable agent for this type of insurance as it is for farm property. Close attention should be paid to the policy provisions and premium rates. Comparing policies and rates among various companies can save considerable money.

An objective and well-qualified agent is useful in assisting an individual to select life and disability insurance. Points to consider are age, number of dependents, financial strength and liquidity, level of

liabilities and one's estate plans. Beginning farmers with young families and low equity have the greatest need for life and disability insurance. These needs can often be met with renewable level or reducing term insurance. Farmers who seek lifetime protection at a fixed premium might consider whole or 'ordinary' permanent insurance. When purchasing permanent insurance, determine the amount that provides life protection. Compare the cash surrender value at different stages of the policy in relation to the premium. This gives an indication of how well the savings portion compares to bonds, R.R.S.P.'s or other investment. With both life and disability insurance, premium savings can be achieved by purchasing under group plans.

Insurance management is an ongoing task. Circumstances change so insurance needs must be constantly reassessed. Policies should be reviewed annually when the premiums become due, or whenever a major change in the business is encountered. Consider having policies renewable during a period in the year that allows ample time for a detailed review. Read the policy thoroughly, particularly if the insurance is being purchased for the first time. This is the only way to determine the extent of coverage, or whether a vital risk is excluded from coverage. It also affords an opportunity to discuss the policy with the agent. The end result should be well tailored insurance policies that provide the farmer and his family with optimum protection.

Property Insurance

In discussing the insurance requirements for farm property, major assets have been grouped as follows - dwelling and contents, service buildings, motor vehicles, livestock and machinery.

Although both liability coverage and crop insurance are considered to be types of property insurance from a legal viewpoint, these will be dealt with separately in this bulletin.

Dwelling and Contents

Fire protection is the primary concern for the farm home and personal belongings. Basic fire insurance may merely cover losses from fire, lightning and explosion of gases. However, all companies offer extended coverages which may include losses from all explosions, wind, hail, water, impact by vehicle or aircraft, falling objects, collapse, vandalism, and riot.

As the degree of protection increases, so does the premium. Premium rates will also be affected by the amount deductible from the coverage. Fire insurance policies usually include a deductible clause requiring the insured to withstand a loss up to a stated amount. The higher the "deductible" - the lower the premium, since coverage is less and the company will not have the expense of dealing with the small losses.

a) Replacement Cost Value and Actual Cash Value

Dwelling and contents may be insured for either "replacement cost value" (RCV) or "actual cash value" (ACV). ACV means the cost of a new replacement less physical depreciation (loss in value to age, wear, tear, etc) RCV is the cost of a new replacement without deduction for depreciation. When insuring for RCV, the item lost must be replaced other wise only ACV is paid to the insured.

The following example illustrates the two types of coverage: A house is 20 years old and is considered to be 40% depreciated. The replacement cost of this house has been estimated at \$80,000. It's depreciated value is thus $\$80,000 - (.40 \times \$80,000) = \$48,000$. To insure for RCV would require \$80,000 coverage, while insuring for ACV would require \$48,000 coverage. Insuring for RCV naturally costs more because the sum insured for is larger.

b) Deferred Loss Settlement

A deferred loss settlement clause may be included when insuring specialized buildings or a building on another persons land. This means that a percentage of the loss is paid out initially and the balance is paid later providing that the building is replaced within a given distance of the original site and within a stated time period. For instance, settlement may initially be 50% of the loss with the remaining 50% payable after the building has been replaced. To collect the remaining 50%, construction must commence within 6 months of the date of loss and within 200 feet of the original site. When a policy contains a deferred loss settlement clause it is necessary for the insurance agent to explain the clause and obtain the insured's signature.

c) Co-Insurance

Fire insurance policies usually include a co-insurance clause. It is a device used by companies to encourage insurance for a reasonably adequate amount. A co-insurance clause says in effect that "provided you insure at least a fixed percentage of the full value of your property at the time of the loss, losses will be paid in full up to the amount of your policy. Should the insurance not be kept up to this percentage, the payment will be reduced proportionately".

The following example shows how co-insurance applies on a \$80,000 dwelling. The common requirement of co-insurance is that 80% of value be carried. Thus the minimum coverage in this case would have to be \$64,000 in order to avoid co-insurance penalties. If the house is insured for \$56,000 (or 70% of its RCV) and a \$10,000 loss occurs, then, the co-insurance clause would apply and only $70\%/80\% \times \$10,000 = \$8,750$ will be paid. If the dwelling was completely destroyed, the amount payable is not $70\%/80\% \times \$80,000$ (or \$70,000) but rather \$56,000. Insurance is never paid for more than the policy limit. Since farm fires usually result

in total destruction, it is advisable to insure for full value at all times. In this manner, total losses are repaid, and co-insurance problems will be avoided. During inflationary periods, insurance coverage should be reviewed annually.

Dwelling contents can be insured for replacement cost value. All personal belongings should be inventoried and valued at replacement cost. The inventory should be filed in a safe place so that it is available to assist if a claim is ever made.

Consider combined dwelling and content coverage plans when purchasing home insurance. Some companies have policies in which content coverage is automatically 50% of house coverage. This type of plan generally results in a reduced premium due to lower administrative costs to the company.

d) Conditions Which May Void Insurance

Check the policy for conditions that can void your insurance coverage, such as the storage of inflammable materials, or intended periods of leaving the house vacant or unoccupied.

Service Buildings

Fire insurance is the main consideration when insuring service buildings. Extended coverage, similar in nature to that offered on dwellings, is available on farm buildings.

1) ACV or RCV coverage?

When RCV coverage is carried, it is necessary to replace the building if it is destroyed. Since the premiums in older service buildings are quite high and it may not be wise to replace those buildings, if they were destroyed, ACV coverage may be the preferred type of coverage.

However, highly specialized livestock barns such as a hog barn which provides a major source of income, should be insured at RCV.

b) Blanket Coverage

Blanket coverage is available for farm outbuildings. This means that all buildings and granaries situated on the farm are insured without having to identify each one individually. Total coverage must meet a specific minimum (e.g. -80% of actual cash value), otherwise co-insurance penalties may apply.

Blanket coverage may be obtained for the contents of buildings such as prepared feed, fertilizer and small tools. Certain contents such as stored fodder must be scheduled separately while whole grain must be insured under separate blanket coverage. The policy

should be checked to ensure these requirements are met.

c) Conditions Which May Void Insurance

Consideration should be given to conditions which might void coverage such as storage of inflammables, use of equipment in or near a building, unacceptable types of heating systems and prolonged vacancy.

Motor Vehicles

All licensed vehicles in Saskatchewan are automatically insured under The Automobile Accident Insurance Act. A \$500.00 deductible amount applies, although supplementary vehicle insurance can be purchased with a \$50.00 deductible amount. The coverage is divided into two areas: 1) collision or upset and 2) comprehensive (excluding collision or upset). Collisions coverage applies only when damage is caused by collision with another object or by upset. Comprehensive coverage applies when loss or damage is caused by other perils which are described in the policy. This would normally include fire, theft, windstorm, hail and vandalism. Supplementary policies are commonly known as "package policies" and in addition to offering supplementary coverage for the vehicle and glass coverage, it can also provide medical benefits and third party liability. This will be discussed under subsequent headings.

Livestock

a) Fire and Lightning

Several forms of livestock insurance are available. Fire and lightning coverage is usually sufficient in confinement rearing enterprises. This can be obtained at reasonable cost by extending the insurance coverage on farm buildings.

b) Floater Insurance

Wider coverage is available through "floater" insurance. In addition to fire and lightning protection, it compensates for death by windstorm, drowning, shooting, collision with vehicles and theft. Floater insurance provides coverage on or off the farm and during transit by road or rail.

Most companies will provide blanket coverage whereby the entire herd can be insured without listing individual animals. However, a herd or class of livestock must be insured for a minimum percentage of its total value (usually 80%) or co-insurance may apply.

c) Mortality Insurance

The greatest amount of protection is provided by mortality insurance. It covers accidental death as well as death by disease or sickness. A Veterinary Certificate

must accompany an application for mortality insurance. The policy can be extended to cover foaling and or calving risks, loss of fertility and ova transplants. Premium rates can be very high and will depend on the type of livestock and the amount of protection required. This form of insurance can only be justified for valuable purebred animals.

d) Short Term Insurance

Livestock insurance is available to cover short term risks as well. This includes showing livestock at fairs, travelling to and from them, or single-trip coverage for marketing livestock.

Machinery

Farm machinery and equipment may be protected from loss by fire or lightning through purchase of a basic fire policy. However, all-risk coverage is available for very little extra premium. Protection is then broadened to include a wide range of perils including hail, windstorm, collision with vehicles, theft, vandalism and accidental damage. Where equipment is being moved down public roadways, left in unattended fields or operated under adverse physical conditions, the added protection of all-risk insurance should be considered.

Some companies offer blanket coverage of farm equipment. A minimum percentage (usually 80%) of the total value of all equipment must be insured in order to avoid co-insurance. However, with blanket coverage, all pieces of machinery and equipment owned are automatically insured.

Check policies to determine whether newly purchased equipment is automatically covered. Some policies will cover new unlisted equipment for a specified period of time during which the insured must notify the company and pay the additional premium. Remember that coverage levels should be based on present value of ACV since this is the basis for payment on losses. RCV coverage is not available for machinery. However, try to keep coverages as close to full present value as possible to avoid co-insurance.

It is best to save premiums by electing a higher deductible amount rather than decreasing the dollar level of coverage.

Liability Insurance

Liability insurance protects an individual from actions resulting from his legal responsibility for the losses or damages suffered by another party. The number and settlement amounts for liability claims is quite high now. This makes liability insurance one of the more important areas in insurance management. Farmers can be held liable in traffic accidents, as well

as the owners and occupiers of property. A farmer may be held responsible when a salesman, canvasser or trespasser is injured or killed as a result of his failing to maintain the property without regard for the safety of others. Stray animals may cause damage to others. Although the chance of a claim arising is small, if a claim does arise, the settlement amount can be very high. This underlines the need to carry liability insurance.

Motor Vehicle Liability

The Automobile Accident Insurance Act of Saskatchewan provides liability insurance up to \$200,000 when a motorist is found legally liable for an accident. This insurance is automatically provided when a vehicle is licensed in Saskatchewan. However, the level of coverage is inadequate in light of present day claims.

The most important aspect of automobile insurance is not protection against damage to the vehicle, but rather liability to the public. The maximum value of a car or pickup is small compared to potential liability claims. In Canada, there have been a number of awards of over \$1 million to individuals who have suffered severe injuries in automobile accidents. The amounts of awards will undoubtedly tend to increase due to inflation and sympathetic courts. Further, the awards mentioned were for individuals, were as several people could conceivably be injured or killed in one accident, to say nothing of possible damage to property. Recently, a Prairie farmer was held responsible for a train derailment when his grain truck stalled at a crossing. Although there was no bodily injuries, the derailment resulted in \$850,000 of property damage.

Supplementary liability insurance of \$1,000,000 should be considered. The premiums for liability insurance are not high, and the marginal cost of increasing the coverage does not rise proportionately. In other words, it does not cost twice as much to insure for \$1,000,000 as compared to \$500,000.

General Liability

The owner or operator of a farm is legally responsible to another person for any personal injury or damage to property resulting from his negligent acts or those of his family or employees. General liability insurance is usually obtained through a comprehensive policy. Extensions to a comprehensive policy may be obtained to cover such things as employer liability, product liability or contractual liability.

a) Employer Liability

Employer liability insurance offers protection against claims by employees who are injured as a result of the employer's negligence. If employees are hired, then employer's liability insurance is strongly recommended. Voluntary compensation can be included in the policy as well. This will provide certain benefits to the employee in case of injury or death resulting from his employment.

b) Product Liability

Product liability insurance covers claims for injury or death arising from the possession, handling or use of products sold by the farmer. Normally where raw products are sold, this liability is assumed by the wholesaler or processor. However, in situations where dairy products, eggs, manufactured feeds, etc. are sold directly to consumers, then product liability protection should be considered.

c) Contractual Liability

Farmers may be exposed to contractual liability when entering certain types of contracts. Production contracts, purchase orders, equipment leases and construction contracts may contain clauses which make farmers liable for actions rather than the other party to the contract. A standard general liability policy will only insure contractual liability to a limited extent, therefore it may be necessary to extend the policy to provide higher coverage.

Though the comprehensive liability policy offers a wide range of protection, it usually applies only to farming operations. Expanded coverage may be required when operating another business or doing custom work. As with automobile insurance, coverage of at least \$1,000,000 should be considered. A mishap involving a tractor or combine could bear the same consequences as an automobile accident.

Personal Insurance

Health Insurance

Most residents of Saskatchewan qualify for medical coverage under various provincial plans. These plans cover a wide range of medical services which are provided to anyone holding a valid Saskatchewan Health Services card. Listed below are the major plans and a description of the services covered.

a) Saskatchewan Medical Care Insurance Plan

Covers the cost of most services deemed necessary by the attending physician including medical treatment, surgery, maternity care, x-ray, lab services, eye examination, etc. Services not included are such things as treatment of cancer, plastic surgery, dentistry and ambulance service.

b) Saskatchewan Hospital Services Plan

Covers most hospital services deemed necessary by the attending physician. Services not covered are the extra cost of private or semi-private wards, certain drugs, most cosmetic surgery and services not needed for medical reasons.

c) Saskatchewan Prescription Drug Plan

Covers certain drugs which can be obtained at a fixed dispensing fee. To be eligible, the drugs must be listed in Saskatchewan Formulary and must be prescribed by a medical doctor or dentist.

d) Saskatchewan Dental Plan

Covers dental care for children aged five to seventeen. Once enrolled, a child remains on the plan until age seventeen unless withdrawn by the parent.

e) Saskatchewan Aids to Independent Living

Provides self-help devices such as wheelchairs, walkers, artificial limbs, etc. Special benefits are available for paraplegics, disabled children under 18 and children born with severe limb deformities.

f) Other Provincial Health Programs

The Saskatchewan Cancer Commission ensures that each cancer patient in the province has the opportunity to receive effective diagnosis, treatment and follow-up care.

The Saskatchewan Hearing Aid Plan provides assistance in the assessment of hearing losses and in the purchase of hearing aids.

Supplementary health coverage may be purchased from private agencies for a small annual premium. These plans provide partial assistance towards the cost of services not included under provincial programs. Perhaps the most important feature of these plans is coverage for medical services received outside of Canada while on vacation or travelling. Due to the high cost of medical treatment in some countries, the provincial plans fall short of providing total coverage. Agencies handling supplementary health coverage in Saskatchewan are Group Medical Services and Medical Services Incorporated.

Disability Insurance

There are numerous policies available to farmers known as accident and sickness or disability insurance. These are offered directly by life and accident insurance companies or through various farm organizations. There are great variations in types of coverage and the level of benefits available from one company to another.

The most comprehensive policies offer coverage against accident and sickness from all causes on a twenty four hour basis. If the insured person becomes totally disabled, monthly benefits are payable for a certain period of time. For example, a typical policy may pay \$800 per month of a "2 and 5" basis with a "30 day provision". This means that after a 30 day waiting period, the monthly benefit can be collected for up to 2 years if disabled by sickness, or up to 5 years if disabled by accident. In addition to monthly income, the policy can be tailored to pay a specified lump sum for death or dismemberment. A medical examination is normally required and the premium is based on the applicant's age at the time of the purchase. The premiums then remain constant to a certain age such as 60 or 65, providing they are kept up annually. Premiums tend to be lower under a group policy than for an individual policy offering similar coverage.

Accident policies only are available. Benefits usually include some level of monthly income plus lump sum payments for death or dismemberment. Because sickness is not covered, a medical examination is not required and premiums do not hinge on the purchaser's age. The policy is normally renewable on an annual basis and cost is considerably less than those policies which provide sickness coverage as well.

When comparing disability insurance policies consider such factors as: the scope of coverage, exclusions to coverage, waiting period before benefits commence, dollar amount of benefits and duration of income benefits. Some policies which appear low cost, offer little or no useful protection should a claim arise.

Worker's Compensation

Worker's Compensation is a form of accident insurance which offers protection to both employers and employees. Since 1975, coverage under Worker's Compensation has been available to farmers on a voluntary basis. Coverage is available for employees, farmers, or farmer's spouses. Premiums are 3% of the annual payroll except for intensive livestock enterprises such as hog, poultry or beef feed lots, where the rate is 1.7%. The payroll is considered to be total gross earnings before deductions plus an allowance for housing or room and board. Once coverage is applied for, all workers, whether full-time, seasonal or casual, must be included. Personal coverage and that of the spouse is optional. However, if the farmer or farmer's spouse is covered, a payroll must be elected which is not less than \$13,500 or not more than \$33,000 per annum per individual.

Compensation is payable for personal injury which occurs on the job. If a worker is disabled, benefits become effective the day following the date of disability, but a doctor's report is required. Benefits are equal to 75% of earnings and are paid as long as disability from the injury continues. If permanent disability results, then a pension for life is granted in accordance with the degree of disability. Where a fatal injury occurs, the surviving spouse and children become entitled to a lump sum payment plus certain burial expenses. The spouse also receives a monthly pension for five years or until the youngest dependent reaches sixteen years of age.

Worker's Compensation offers a sophisticated accident and disability insurance program, especially for employee protection. Benefits are extensive and the employer is protected against liability suits by employees injured in the course of employment. Under the Act, an employee cannot sue the employer for negligence. Farmers seeking extensive accident insurance for their employees or themselves should consider coverage under Worker's Compensation. However, it must be remembered that where twenty four hour protection from all causes is desired, a private plan will be necessary. Worker's Compensation will provide coverage for injuries sustained only while carrying out farm related work.

Life Insurance

The main purpose of life insurance is to provide income protection for dependents in the event of the principal wage earners death. In addition it can provide cash to pay federal expenses, legal fees, debts, and various taxes that are due on death. In this way life insurance can assist the transfer of the family farm to the next generation.

Life Insurance may be combined with an "option to buy" or "buy-sell" clause in a partnership, father-son agreement or corporation. If a partner dies the proceeds from insurance will provide funds for the remaining partner to purchase the deceased partner's interest, enabling him to continue the farm business. The cost of this insurance should be compared to the potential benefits.

The amount of insurance required depends upon individual preferences and circumstances. Factors to consider are the farmer's age, family responsibilities, attitude towards risk, debts, and the amount of readily available income from other sources such as cash on hand, farm inventories and investments. The young farmer with a large mortgage and a family to support and educate should have life insurance. At this stage he needs protection at the lowest available cost rather than a savings insurance policy. As the farmer grows older, the need for protection decreases. His net worth has increased while his family responsibilities have decreased. However, there are still medical bills, funeral expenses, legal fees, debts and taxes to pay. Life insurance is useful to cover these costs and keep the farm intact.

The life insurance policy can be owned by the beneficiary in order to reduce legal fees and other complications in settling the estate. When death occurs the insurance does not become part of the estate. It is paid directly to the beneficiary and could have the effect of reducing the size and complexity of the estate, hence reducing administration costs. A wife may own a policy on her husband's life even though she pays the premium from cash gifts received from her husband.

a) Types of Life Insurance

All life insurance policies fall into two categories: term insurance and permanent insurance.

1) Term Insurance

Term insurance covers a specified period of time. At the end of this period, the insurance protection lapses and no cash surrender value is available. The face value of the policy is paid out only if the policy holder dies during the term of the insurance.

Term insurance is available in two basic forms. The policy can be bought to pay out either level or decreasing benefits. Level term insurance has a higher premium than reducing term insurance because it pays out the full benefit if you die at any time during the term. Where your assets increase as you grow

older and less protection is added, reducing term insurance is desirable.

Reducing term insurance is very cheap insurance and therefore often used to cover outstanding mortgages. If the creditor requires that life insurance be assigned to him as security for a business loan the cost of the insurance is deductible as a business expense.

A term insurance policy should allow for conversion to another type of policy. This option enables the policy holder (during a specified period) to convert the insurance to a permanent policy without the need for a medical examination but at a higher premium.

2) Permanent Insurance

Permanent insurance provides a combination of protection and savings. For this reason it has a higher premium than term insurance. Permanent plans will pay out a benefit at expiry whether the insured person dies or not. If the insured should cancel the policy it has a "cash surrender value" which is the savings part of the policy. There are three type of permanent insurance.

- Whole (ordinary) Life - This is insurance for the whole of life with premiums payable in the same amount each year until death or until the policy owner wishes to discontinue paying premiums and select one of the optional benefits. Next to term insurance it offers short-term or lifelong protection at the lowest premium.

- Limited Payment Life - This policy provides insurance for the whole of life, but requires that the premiums be paid for only a limited period of time. Premiums are higher than for whole life but so is the savings part of the policy.

- Endowment Insurance - The term "endowment insurance" describes a policy which provides for payment of the face amount at the end of the endowment period (e.g. twenty years for a twenty year endowment). Should the insured die before the policy matures, the face amount of the policy is paid to the beneficiary. With endowment insurance the investment element is relatively more important than in ordinary life or limited payment policies. Consequently, it has the highest premium.

When you buy life insurance consider the risks, types and costs of insurance, and alternative uses for the money. In some cases you may find that the savings portion of a life insurance policy offers a poor return on your investment. In these situations you would be further ahead to purchase a low premium term insurance and to invest your money elsewhere.

Consider a guaranteed insurability option in either a term or permanent policy. This allows the individual to purchase additional amounts of life insurance in the future, regardless of health.

When buying life insurance, find an agent who is willing to discuss term insurance as well as permanent insurance.

Crop Insurance

All-Risk Insurance

Income instability is one of the most significant financial risks in farming. Fluctuating product prices and variability in crop yields are the main causes of income instability. The Saskatchewan Crop Insurance Board offers farmers protection against yield losses caused by uncontrollable natural hazards. Eighteen insurable crops are covered by the plan. Protection is provided for loss by drought, frost, hail, fire, flood, excessive rain, snow, wind, wildlife, insect pests and plant diseases.

The insured is guaranteed the value of a specific level of production from each insured crop. The level of production guaranteed would depend on the risk area in which the farm is located, the productivity of the soil on which the crop has been seeded, and the coverage option which has been chosen. For Crop Insurance Purposes, the province has been divided into 23 risk areas to provide coverage and premium rates for each crop in accordance with the crop yield history and risks common to each area. A soil productivity index (A to P) has been established and each quarter section is individually rated according to its productive capability. Higher coverages are offered for summer-fallow crop than for stubble. Based on the above criteria, specific yields per acre can be determined. The farmer then chooses either a 60% or 70% coverage option and applying this to the number of acres seeded, a total production level can be computed for each crop being insured. If production is less than the guaranteed amount, the insured is paid for the difference at the price which was selected. There are presently two price options for each insurable crop.

In 1985 farmers will have the option of choosing insurable crop coverages on their own yields instead of area average yields for spring wheat, durum, barley and canola.

Coverage for this option will be 80 percent of an individual's last ten year average yield for these crops if yields are available.

Yield from previous years that can be verified will be used. In years where the farmers yield data is not available on adjusted area average yield will be used.

A more detailed description of Individual Coverage is available in a brochure entitled "Individual Coverage - a new option".

An individual's coverage may also vary from crop to crop according to his loss experience. Coverage for a crop will move upward or downward from the basic level according to each individual's accumulated experience with that crop. Over an extended period of time, coverage may vary from 70% to 125% of the basic coverage.

Premium rates relate to the risk area, soil productivity index, coverage options and price option selected. Premium discounts are earned by the farmer who makes no claims or receives only modest indemnity payments. Over a period of time, up to a 50% premium discount can be earned.

Along with yield loss protection, all-risk crop insurance provides spot loss protection against hail until September 30 and spot loss protection against fire until October 31. The advantage of the spot loss benefit is that the Crop Insurance contract provides a complete hail insurance benefit as well as a yield guarantee. Spot hail losses do not lower the production guarantee, although indemnities from both spot hail loss and yield loss cannot exceed the production guarantee. Spot loss hail coverage becomes effective on May 15 for fall rye, rapeseed, flax, mustard, winter wheat and sunflowers and on June 1 for all other insurable crops.

In addition to spot loss hail and yield loss coverage, quality losses are also covered. For each insurable crop, a designated grade has been established. If production from an insured crop is reduced in quality as a result of a named hazard, the production is adjusted downward using the established grade factor. Should the adjusted production fall below the guaranteed level, compensation will be made.

To be insured under All-Risk Crop Insurance, an application is required on or before April 30 of the year in which the insurance is to be in effect. This is also the deadline for making any changes in crops insured, coverage levels and price selections on existing contracts. For Crop Insurance purposes, the final seeding date for all insurable crops except fall rye is June 20. Farm rye and winter wheat must be seeded no later than September 25. Crops are insured until destroyed or harvested, whichever is the earlier. Claims must be filed within 3 days of the occurrence of damage or within 5 days of completing harvest. Any insured crop not harvested by November 15 must be reported no later than November 15. No claims or requests for extension of insurance are accepted after November 15.

Full information on All-Risk Insurance can be obtained at any one of the Crop Insurance Board's 32 area offices or at the Head Office in Regina, Saskatchewan.

Hail Insurance

Hail insurance provides coverage at a chosen dollar amount per acre, regardless of the crop's value. The company agrees to pay this chosen amount per acre multiplied by the percentage of damage. The coverage applies before cutting and while the crop is in the swath. Most policies also include coverage against fire on a spot loss basis. To hold a policy one must have an insurable interest in the crop as either owner, landlord (crop-share basis only), tenant or mortgagee.

Three types of policies are commonly available. These are full coverage, 10% deductible and 25% deductible. A full coverage policy pays the full percentage of loss if at least a 5% loss has been sustained. The deductible policies require that the insured bear the first 15 or 25% respectively of any loss. With most policies, if the loss is 85% or over, the insurer treats it as a 100% loss. Compensation is thus paid for the full amount less any deductible. Some companies also offer a declining deductible policy. With this feature, the deductible percentage decreases as the amount of loss increases to a point where the deductible no longer applies.

Hail insurance premiums are determined by the prevailing rate in a given township and the per acre coverage requested. These rates depend on the past frequency of damage in a district and range from 2% - 8 1/2% in Saskatchewan. The rate is adjusted downwards for the deductible policies since coverage is less. For instance, the 25% deductible policies are frequently offered at half the basic rate. For certain specialty crops, the rate is adjusted upwards to reflect the higher risk. For example, some companies will charge one and one-half times the basic rate for crops such as rape, flax, peas or lentils. Most companies will limit the available coverage per acre to perhaps \$50 or \$60. However, it is possible to purchase insurance from more than one company should higher coverage be desired.

The three main source of hail insurance in Saskatchewan are:

1) Saskatchewan Municipal Hail Association - The basic coverage is \$10 per acre which can be increased to \$25 or \$40 per acre if application is made by June 15th. Rates are occasionally lower than those of other companies and there is no surcharge for specialty crops. Should higher coverages be required, additional insurance can be obtained through a subsidiary company at competitive rates.

2) Co-operative or Mutual Associations - This includes Co-operative Hail Insurance Co., Farmers Mutual Hail Insurance Co. and Mennonite Mutual Hail Insurance Company. These are farmer owned companies which will offer dividend returns to policy-holders in years of favorable performance.

3) Independent Line Companies - These are the private firms which deal in a wide range of insurance business including hail. Policies are sold by independent insurance agents, who often represent several line companies.

Basic rates are generally very competitive among all companies. However, certain companies may offer better premium advantages on deductible policies or lower rates on specialty crops. It is advisable to compare rates, especially in the higher risk areas or if specialty crops are being insured.

Insurance Policies

Legal Considerations

Insurance is a method of shifting risk of loss from one party to another. A fee, called the premium, is paid by the insured (party wishing to shift the risk) to the insurer. Should a loss occur, the insurer will indemnify the insured (cover his loss) to the extent indicated in the policy.

a) The Insurance Contract

An insurance policy is a legal contract between the insured and the insurer. As with all contracts, a policy is not effective until an offer has been accepted. Contact made by an insurance agent is usually just an invitation to do business, and not an offer. The offer is ordinarily made when the party seeking the insurance signs the application form. With life insurance, the applicant's offer is not accepted until the insurance company delivers the policy to him, and the first premium has been paid. Many life insurance companies include an interim insurance provision. The applicant is covered from the time he signs the application, if the first premium is paid in full and such interim insurance is noted on the receipt. The results of any necessary medical examination must be satisfactory to the company, as well.

Agreements for property insurance are usually less formal than those for life insurance. Usually an agent has the authority to bind his company immediately so that a person seeking property insurance can obtain the desired protection before paying the premium or receiving the policy. However, if an individual desires immediate protection with a specific insurance company, it is important to find out whether the agent has an agency contract with that company. It is only then that the agent will have the authority to bind his company.

Farmers should be careful when renewing a property insurance policy. It is a common practice for an insurance agent to prepare a renewal policy and send it to the insured shortly before the current policy expires. Unless there is evidence of an agreement between the agent and the insured, the delivery of a renewal policy amounts to no more than making an offer to the insured. No contract is formed until the insured communicates his acceptance and the agent cannot be expected to keep the offer open indefinitely.

b) Principle of Good Faith

The principle of good faith governs the formation of the insurance contract. If the insured falsely describes, misrepresents or fraudulently omits to reveal a fact which is relevant to the contract, it becomes void. However, an applicant is not obligated to disclose what he does not know (e.g. - that he is suffering from a heart problem when his physical ex-

amination did not reveal this). If an application form stipulates that the applicant warrant the accuracy, and not merely the truthfulness of the declaration he is making, then the insurer may be able to avoid liability even though the applicant is unaware of the problem.

For all insurance contracts other than life insurance, it is a statutory requirement that the insured notify the insurer of any change in the risk (e.g. - that a building will become vacant). The insurer then has a choice of cancelling the insurance or continuing the insurance for a higher premium. If the insurance company does not receive notice of the change in risk, they will not be liable under the policy in the event of a loss.

In the case of property insurance, the insured must have an "insurable interest" (mortgagee, owner, etc.) at the time the contract is formed and at the time the claim arises. When the contract is for life insurance the person purchasing the insurance must either obtain the written consent of the person whose life is to be insured, or have an insurable interest at the time the contract is formed (e.g. - when a creditor wishes to obtain insurance on the life of a borrower).

Reading a Policy

Most insurance policies are organized in the same general manner. Once you understand the format which is followed, it makes reading a policy fairly easy. The following sections are included in most policies:

a) Cover Page - A typical policy will begin with the cover page. In some policies this part is called the schedule or declarations. Whatever its name, it sets out the details of your particular policy. These include the name and address of the insured, the period of the policy, list of property being insured, dollar amounts of coverage and other relevant information.

b) Conditions of the Policy - The next section normally outlines the conditions of the policy. These are requirements imposed upon the insured by the insurance company. Included would be such conditions as notification of changes of risk, prompt notification of a loss and providing proof of loss. Certain things that the insurance company promises to do would also be listed here, such would include an explanation of how and when a loss would be settled. The terms on which the policy can be cancelled by the insured or the insurance company are set out as well.

c) Types of Coverage - The next section of a policy outlines the types of coverage available. Often this is referred to as the insuring agreement and could be termed the positive part of the policy. It states the risks that are being insured and describes the property being insured.

d) Exclusions - The final section of a policy usually contains the exceptions or exclusions. This is the negative side of a policy as it describes the risks and property which are not being insured.

e) Endorsement - Any changes or additions to the basic policy are made by an endorsement. These are extra sheets of paper attached to the start of the policy, it will state the date on which the change becomes effective. Such things as a change in name, location or risk, or coverage of additional property would be recorded by means of an endorsement. The endorsements will always take precedent over the original provisions of the policy.

When reviewing a policy, first check the cover page to make sure all property to be insured is included, the policy period is correct and the dollar amounts of coverage are adequate. Then read the insuring agreement along with the exclusions. For a potential claim to be valid, it must fall within the insuring agreement and not be eliminated by the exclusions. If the coverage you are looking for qualifies under this test, then you have the required protection. The only things which can prevent recovery are a breach of the conditions or some change made by an endorsement. However, if you are uncertain about what is covered, check with an agent.

While the previous discussion has been in regard to fire insurance policies, the procedures for other types of insurance policies are similar. The policies may be organized slightly different, but the key components such as the insuring agreement, exclusions, etc., will be in the policy and will assist an individual to determine the extent of the coverage provided.

Insurance Claims

Insurance is purchased to provide protection when a loss occurs. When this happens it is important to know what should be done - or not done. Mishandling a claim can turn a valuable policy into worthless paper. When a loss occurs, the first step is to inform the insurance company or agent immediately. In the case of a car accident, theft or suspected arson, the police must also be notified. Some policies specify that written notice of loss be made within a specified time period. For instance, many hail companies require that a notice of loss be submitted by registered mail within three days of the storm. Failure to comply with such a requirement could automatically void the claim.

The insurance company must be informed of the amount of loss as well as proof of loss. Proof of the amount of loss may involve producing evidence of ownership and the present value of property which was lost or damaged. A good set of records along with a detailed inventory of assets will assist in settling a claim. Up-to-date inventories of machinery,

livestock, produce, dwelling contents, and shop tools should be maintained and attached to fire insurance policies. Items should be described or identified by serial number and assigned a present market value. This will provide some evidence in support of a claim if items are stolen or destroyed beyond recognition. Insurance policies and related documents should be filed in a safety deposit box. Otherwise, a mishap in the home or office could destroy all necessary documents.

When a mishap such as a car accident or a third party injury on your premises occurs follow certain procedures. Firstly, never admit that you, your family or employee was responsible for the mishap, regardless of how obvious it may appear. Avoid unnecessary discussion with the people involved. Correspondence from the other party's insurance company or lawyer should be passed to your insurance company without acknowledgment. Failure to comply with this may void your policy.

An insurance adjusters function is to appraise a loss in order to arrive at a settlement which is fair for both the insurance company and the insured. The adjuster may be on the staff of the insurance company or be an "independent adjuster" employed by a specialist firm. An experienced adjuster can be very helpful in getting damaged items repaired quickly and in obtaining temporary replacements.

If difficulties are encountered in settling a claim, the agent should be contacted. His influence may prove helpful in speeding up a settlement.

Glossary of Insurance Terms

Actual Cash Value	- (A.C.V.) - the value of property based on its replacement cost less physical depreciation (that due to age, wear, tear, and obsolescence).
All-Risk Insurance	- refers to coverage of all conceivable risks other than those specifically excluded in the policy. The important point concerning all-risk coverage is that the onus of proof is shifted from the insured to the insurer. Where the perils are specified, the insured must prove that the loss was caused by one of these perils. Under all-risk, the insurer must prove that the loss was caused by an excluded risk to be absolved of liability for payment, which is often difficult to do.
Associate of The Insurance Institute of Canada	- (A.I.I.C.) - a first stage diploma gained by passing the examinations of the Insurance Institute of Canada after three or four years of related experience.
Blanket Coverage	- a type of insurance coverage in which a class of assets (e.g. - farm machinery) can be insured without having to identify specific items.
Cash Surrender Value	- refers to the reserve or savings fund associated with permanent insurance. It is created through higher annual premiums and grows during the life of the policy. Should the policy be cancelled during this term, these savings are returned or 'surrendered'.
Certificate of Insurance	- a summarized statement of policy coverage often used as evidence of insurance coverage. However, lenders often request more detailed evidence of coverage, in which case a certified copy of the policy is required.
Chartered Life Underwriter	- (C.L.U.) - a diploma gained by a life insurance agent after passing the examinations of the Life Underwriters Association of Canada. To achieve this designation requires on the job training, study of several business courses and five to six years work experience. The letters C.L.U. will appear behind the names of life insurance agents who have gained this diploma.
Claims Ratio	- the ratio between claims overhead and premiums. Your claims ratio over a period of years may affect the premiums you pay or your privilege to buy insurance.
Co-Insurance	- a device used by companies to encourage individuals to insure to full value. It is based on a percentage of the property value. If insurance is not carried to at least that level, then claims are paid on a pro-rated basis. The insured thus becomes a co-insurer along with the insurance company.
Conversion Option	- an option allowing the insured to convert a term life policy to some form of permanent insurance without medical examination.
Cover Note	- a temporary document issued while a policy is being prepared. It gives essential details of the insurance that has been arranged. Sometimes referred to as a binder.
Endorsement	- an addition to the basic coverage which makes a revision in the policy. This may be a change in name, location, type of coverage or an addition to the property being covered. When added after the start of the policy, it will state a date from which the change becomes effective.

Exclusions	- refers to the risks or items which are not covered by a policy.
Extended Coverage	- refers to a variety of miscellaneous perils which are insurable in addition to basic fire and lightning. It includes such things as riot, windstorm, hail, vandalism, falling objects, etc.
Fellow of The Insurance Institute of Canada	- (F.I.I.C.) - the second stage diploma gained by passing the examinations of the Insurance Institute of Canada after about five years of related experience. Both the A.I.I.C. and F.I.I.C. letters are sometimes shown after the names of insurance agents or insurance company staff. Like most diplomas, they are not a guarantee of competence, but anyone who has studied these courses is likely to be knowledgeable.
Guaranteed Insurability Option	- an option in life policies allowing the insured to increase his level of coverage by a specific amount at one or more future dates without medical examination.
Indemnity	- the compensation payable to the insured as a result of a loss. This will either be for the amount of damages, the interest of the insured in the property, or the policy limit, whichever is the lesser.
Life Insurance	i) Term Life - life insurance which covers a specified period of time and which lapses at the end of that period with no cash value to the policy holder. A pay-out is made only if the policyholder dies during the term of the insurance. ii) Level Term - term insurance where the potential pay-out upon the death of the policyholder remains constant throughout the life of the policy. iii) Reducing Term - term insurance where the pay-out upon the death of the policyholder reduces through the life of the policy. iv) Permanent Life - life insurance with savings. A benefit is payable at expiry of the policy whether or not the policyholder dies. v) Whole Life - permanent life insurance for the entire life of the policyholder with premiums in the same amount each year until the policyholder discontinues the policy. vi) Limited Payment Life - permanent life insurance for the entire life of the policyholder where premiums are paid only for a specific period. vii) Endowment Life - permanent life insurance where the face value of the policy is paid to the policyholder at the termination of the policy (after a set period of time).
Mutual Company	- mutual insurance companies are essentially owned by the policyholders. Premiums are paid into a common pool and claims are paid out of this pool. Fraternal organizations and government insurers fall into this class of insurance companies. With the true mutuals, policyholders may earn a small return of premium or dividend in years of favorable performance.
Peril	- refers to a potential mishap which would result in a loss. An insurance policy will refer to certain perils (e.g. fire, flood, theft, riot, etc) which are either covered or excluded by the insurer.
Policy	- this is the legal contract between the insured and the insurer. The policy sets out the rights and responsibilities of each party.
Premium	- the fee which is paid by the insured to the insurer. In return, the insurer agrees to cover specified losses to the extent indicated in the policy.
Replacement Cost Value	- (R.C.V.) - the value of the property based on the cost of reconstructing new without deduction for depreciation.

Rider	- a clause or provision which can be optionally included in the basic policy, usually for an added premium. It is comparable to purchasing optional equipment with a standard model vehicle.
Stated Amount	- the value of a property based on evidence such as an appraisal, is known as the stated amount. If you arrange to insure for this value, then your policy is not subject to co-insurance during the term, regardless of inflation. At the start of the next policy year, the value is revised if necessary and you insure for the new stated amount. This technique is mostly used when insuring commercial property, especially if two or more insurers are involved.
Stock Company	- stock insurance companies are organized like other public companies. Their capital consists of shares which can be bought by the general public.
Underwriter	- refers to the job of accepting and assessing risks. This term dates back to the early years of marine insurance when private individuals accepted shipping risks by signing their name and the dollar amount of the risk accepted at the foot of a policy. The people who signed their names one under the other at the bottom of the policy were called underwriters.

